Before the Commission on Electric Utility Restructuring Of the Virginia General Assembly

Comments of

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Mr. Chairman and members of the Commission, I want to thank you for the opportunity today to comment on the recommendations in the State Corporation Commission's ("SCC") Stranded Cost Report. My name is Michael Swider and I am employed by Strategic Energy, LLC as Manager of Regulatory Affairs for the Mid-Atlantic region.

Strategic Energy, LLC ("Strategic") is an active competitive retail electricity supplier in eight states, and is currently serving more than 27,000 customers, with an aggregate peak load of over 3,300 MW.

Strategic participated in the SCC's stranded cost proceeding that produced the Stranded Cost Report of July 1, 2003. As stated by Mr. Howard Spinner of the SCC's staff before this Commission on November 19, 2003, Strategic Energy, like other competitive retail suppliers[1], supports the Staff's recommendations in the report. Staff's recommendation to use the "asset valuation methodology" to quantify net stranded costs, if carried out, will provide clarity to consumers and competitive suppliers, and hopefully avoid extensive re-visitation of stranded costs after the transition period. Other than selling the assets, an asset valuation model is the best methodology to obtain a realistic picture of stranded costs. Less sophisticated methodologies that not consider such important assets as fuel arbitrage, transmission arbitrage, capacity optionality and site expansion value will consistently undervalue a portfolio of physical assets.

Accurately quantifying net stranded costs now would benefit retail competition in Virginia. In the current environment, one of the most significant barriers to entry is the ability of the utility to collect a "wires charge" from retail access customers. Not only does the wires charge create a "margin squeeze" between existing and competitive rates,

[1] Constellation NewEnergy, Washington Gas Energy Services, Pepco Energy Services

it creates uncertainty. Even if wholesale market prices were to fall intra-year, so that it would be possible to offer savings to consumers despite the wires charge, the variable nature of the wires charge adds considerable risk to entering into a long-term retail contract. Customer savings in the current year can evaporate if the wires charge were to increase in the following year. If quantifiable stranded costs can be fully recovered before the end of transition period in 2007 there is an opportunity to accelerate retail competition. By not attempting to quantify net stranded costs in the present, there may exist additional uncertainty that stranded costs be revisited in the future. For example, an over-collection of stranded costs could lead to later refunds, or allow an incumbent to excessively reduce its fixed costs to obtain a considerable competitive advantage.

Strategic Energy and the other competitive suppliers urge the Commission to adopt the recommendations in the SCC's Stranded Cost Report, and initiate a proceeding to quantify stranded cost recovery.

Thank You,

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